



Consolidated Financial Statements  
June 30, 2016 and 2015

**Simpson Housing Services Inc.**

Independent Auditor’s Report.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities .....	4
Consolidated Statement of Functional Expenses .....	5
Consolidated Statements of Cash Flows .....	7
Notes to Consolidated Financial Statements.....	8
Independent Auditor’s Report on Supplementary Information .....	20
Supplementary Information	
Consolidating Statement of Financial Position.....	21
Consolidating Statement of Activities .....	23



## **Independent Auditor's Report**

To the Board of Directors  
Simpson Housing Services Inc.  
Minneapolis, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying the consolidated financial statements of Simpson Housing Services Inc., which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Simpson Housing Services Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Minneapolis, Minnesota  
November 21, 2016

Simpson Housing Services Inc.  
Consolidated Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 786,386	\$ 674,164
Restricted cash - other	184,311	176,886
Restricted cash - escrow and reserves	157,088	160,319
Temporary investments	205,971	205,356
Accounts receivable, net	1,487	1,320
Promises to give, net	115,000	20,500
Grants receivable, net	183,794	105,184
Prepaid expenses	10,442	6,276
Total current assets	1,644,479	1,350,005
Property and Equipment, Net	1,635,039	1,806,950
Total assets	\$ 3,279,518	\$ 3,156,955
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of debt	\$ 22,315	\$ 21,229
Accounts payable	850	8,445
Accrued expenses	262,657	238,705
Deferred revenue	7,439	-
Total current liabilities	293,261	268,379
<b>Long-Term Liabilities</b>		
Debt, net of current portion	1,171,940	1,194,255
Total liabilities	1,465,201	1,462,634
<b>Net Assets</b>		
Unrestricted	1,489,683	1,534,662
Temporarily restricted	324,634	159,659
Total net assets	1,814,317	1,694,321
Total liabilities and net assets	\$ 3,279,518	\$ 3,156,955

	2016		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 1,139,248	\$ 200,887	\$ 1,340,135
In-kind contributions	304,910	-	304,910
Government contracts	3,736,853	-	3,736,853
Contract income	393,669	-	393,669
United Way	235,001	-	235,001
Rental income	302,939	-	302,939
Gross special event revenue	142,357	-	142,357
Less cost of direct benefits to donors	(60,306)	-	(60,306)
Net special events revenue	82,051	-	82,051
Other income	54,584	-	54,584
Net assets released from restrictions	35,912	(35,912)	-
Total support and revenue	6,285,167	164,975	6,450,142
Expenses			
Program services			
Shelters	959,316	-	959,316
Family housing	2,988,812	-	2,988,812
Single adult housing	1,704,743	-	1,704,743
Total program services	5,652,871	-	5,652,871
Support services			
Management and general	374,595	-	374,595
Fundraising	302,680	-	302,680
Total support services	677,275	-	677,275
Total expenses	6,330,146	-	6,330,146
Change in Operating Net Assets	(44,979)	164,975	119,996
Non-Operating Activity			
In-kind contributions	277,970	-	277,970
In-kind expense	(277,970)	-	(277,970)
Total non-operating activity	-	-	-
Change in Net Assets	(44,979)	164,975	119,996
Net Assets, Beginning of Year	1,534,662	159,659	1,694,321
Net Assets, End of Year	\$ 1,489,683	\$ 324,634	\$ 1,814,317

See Notes to Consolidated Financial Statements

Simpson Housing Services Inc.  
Consolidated Statements of Activities  
Years Ended June 30, 2016 and 2015

2015		
Unrestricted	Temporarily Restricted	Total
\$ 1,105,687	\$ 36,357	\$ 1,142,044
323,965	-	323,965
3,534,781	-	3,534,781
506,254	-	506,254
212,001	-	212,001
279,753	-	279,753
162,172	-	162,172
(64,144)	-	(64,144)
98,028	-	98,028
22,553	-	22,553
56,601	(56,601)	-
6,139,623	(20,244)	6,119,379
1,011,545	-	1,011,545
2,831,895	-	2,831,895
1,784,142	-	1,784,142
5,627,582	-	5,627,582
346,180	-	346,180
271,654	-	271,654
617,834	-	617,834
6,245,416	-	6,245,416
(105,793)	(20,244)	(126,037)
256,230	-	256,230
(256,230)	-	(256,230)
-	-	-
(105,793)	(20,244)	(126,037)
1,640,455	179,903	1,820,358
\$ 1,534,662	\$ 159,659	\$ 1,694,321

	Program Services			Total Program Services
	Shelters	Family Housing	Single Adult Housing	
Expenses				
Salaries	\$ 471,959	\$ 1,150,142	\$ 439,863	\$ 2,061,964
Employee benefits	73,674	152,124	60,805	286,603
Payroll taxes	35,308	83,633	33,178	152,119
Total salaries and related expenses	580,941	1,385,899	533,846	2,500,686
Rental assistance and housing support	214,428	1,051,357	1,066,133	2,331,918
Shelter rent expense	64,363	-	-	64,363
Supplies	35,345	15,479	1,016	51,840
Interest expense	-	131,365	-	131,365
Transportation	1,905	50,393	15,979	68,277
Insurance	7,125	29,695	5,951	42,771
Professional fees	5,083	40,891	6,506	52,480
Office space	2,729	12,818	15,965	31,512
Telephone and utilities	8,723	27,803	9,212	45,738
Repairs and maintenance	3,000	30,883	19,065	52,948
Program events	10,026	20,723	342	31,091
Printing and postage	943	4,191	2,215	7,349
Dues and subscriptions	1,160	1,762	269	3,191
Professional development and recruitment	439	4,650	263	5,352
Bank charges	-	-	-	-
Special events	-	-	-	-
Miscellaneous	1,265	48,548	9,740	59,553
Total operating expenses excluding depreciation	937,475	2,856,457	1,686,502	5,480,434
Depreciation	21,841	132,355	18,241	172,437
	959,316	2,988,812	1,704,743	5,652,871
Less expenses included with revenues on the statement of activities	-	-	-	-
Total operating expenses	959,316	2,988,812	1,704,743	5,652,871
Non-operating in-kind expense	112,400	131,850	33,720	277,970
Total expenses	\$ 1,071,716	\$ 3,120,662	\$ 1,738,463	\$ 5,930,841

See Notes to Consolidated Financial Statements

Simpson Housing Services Inc.  
Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2016

Support Services			
Management and General	Fundraising	Total Support Services	Total Expenses
\$ 216,905	\$ 187,390	\$ 404,295	\$ 2,466,259
15,824	16,088	31,912	318,515
16,663	13,784	30,447	182,566
249,392	217,262	466,654	2,967,340
4,353	-	4,353	2,336,271
-	-	-	64,363
25,177	314	25,491	77,331
-	-	-	131,365
3,000	180	3,180	71,457
5,354	1,556	6,910	49,681
32,908	16,374	49,282	101,762
2,039	589	2,628	34,140
3,476	1,561	5,037	50,775
2,765	22,773	25,538	78,486
2,123	2,180	4,303	35,394
12,935	32,576	45,511	52,860
4,135	1,194	5,329	8,520
8,884	791	9,675	15,027
3,692	-	3,692	3,692
-	60,306	60,306	60,306
9,134	561	9,695	69,248
369,367	358,217	727,584	6,208,018
5,228	4,769	9,997	182,434
374,595	362,986	737,581	6,390,452
-	(60,306)	(60,306)	(60,306)
374,595	302,680	677,275	6,330,146
-	-	-	277,970
<u>\$ 374,595</u>	<u>\$ 302,680</u>	<u>\$ 677,275</u>	<u>\$ 6,608,116</u>

	Program Services			Total Program Services
	Shelters	Family Housing	Single Adult Housing	
Expenses				
Salaries	\$ 445,241	\$ 1,110,089	\$ 517,358	\$ 2,072,688
Employee benefits	81,040	178,361	92,558	351,959
Payroll taxes	35,157	85,325	40,692	161,174
Total salaries and related expenses	561,438	1,373,775	650,608	2,585,821
Rental assistance and housing support	237,480	942,761	1,026,593	2,206,834
Shelter rent expense	62,271	-	-	62,271
Supplies	29,204	16,343	4,048	49,595
Interest expense	-	136,922	-	136,922
Transportation	1,498	50,710	16,635	68,843
Insurance	6,578	27,594	7,112	41,284
Professional fees	4,626	32,625	5,860	43,111
Office space	2,987	8,033	18,155	29,175
Telephone and utilities	7,896	26,074	11,389	45,359
Repairs and maintenance	4,762	37,397	6,581	48,740
Program events	7,541	34,234	434	42,209
Printing and postage	37	1,097	28	1,162
Dues and subscriptions	717	1,759	500	2,976
Professional development and recruitment	359	1,846	906	3,111
Bank charges	12	-	-	12
Special events	-	-	-	-
Miscellaneous	2,038	18,891	16,629	37,558
Total operating expenses excluding depreciation	929,444	2,710,061	1,765,478	5,404,983
Depreciation	82,101	121,834	18,664	222,599
	1,011,545	2,831,895	1,784,142	5,627,582
Less expenses included with revenues on the statement of activities	-	-	-	-
Total operating expenses	1,011,545	2,831,895	1,784,142	5,627,582
Non-operating in-kind expense	104,404	78,061	73,765	256,230
Total expenses	\$ 1,115,949	\$ 2,909,956	\$ 1,857,907	\$ 5,883,812

See Notes to Consolidated Financial Statements

Simpson Housing Services Inc.  
Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2015

Support Services			
Management and General	Fundraising	Total Support Services	Total Expenses
\$ 199,824	\$ 182,194	\$ 382,018	\$ 2,454,706
30,841	13,330	44,171	396,130
14,872	13,672	28,544	189,718
245,537	209,196	454,733	3,040,554
-	-	-	2,206,834
-	-	-	62,271
766	2,482	3,248	52,843
-	-	-	136,922
1,034	123	1,157	70,000
4,274	954	5,228	46,512
47,722	21,757	69,479	112,590
2,060	497	2,557	31,732
2,544	712	3,256	48,615
9,916	6,321	16,237	64,977
1,915	19	1,934	44,143
3,670	24,377	28,047	29,209
2,311	374	2,685	5,661
855	1,353	2,208	5,319
3,678	-	3,678	3,690
16,629	47,515	64,144	64,144
9,332	227	9,559	47,117
352,243	315,907	668,150	6,073,133
10,566	3,262	13,828	236,427
362,809	319,169	681,978	6,309,560
(16,629)	(47,515)	(64,144)	(64,144)
346,180	271,654	617,834	6,245,416
-	-	-	256,230
\$ 346,180	\$ 271,654	\$ 617,834	\$ 6,501,646

Simpson Housing Services Inc.  
Consolidated Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 119,996	\$ (126,037)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	182,434	236,427
Changes in operating assets and liabilities		
Accounts receivable, net	(167)	3,261
Promises to give, net	(94,500)	(2,500)
Grants receivable, net	(78,610)	70,596
Prepaid expenses	(4,166)	7,647
Accounts payable	(7,595)	(11,188)
Accrued expenses	23,952	35,074
Deferred revenue	7,439	-
Net Cash from Operating Activities	148,783	213,280
Investing Activities		
Purchase of property and equipment	(10,526)	(36,806)
Change in restricted cash - escrows and reserves	3,231	(38,479)
Purchase of investments (CDs)	(205,971)	(205,356)
Redemption of investments (CDs)	205,356	204,742
Net Cash used for Investing Activities	(7,910)	(75,899)
Financing Activities		
Payments on notes payable	(21,229)	(20,196)
Net Change in Cash and Cash Equivalents	119,644	117,185
Cash and Cash Equivalents, Beginning of Year	851,050	733,865
Cash and Cash Equivalents, End of Year	\$ 970,694	\$ 851,050
Supplemental Disclosures		
Cash paid for interest	\$ 7,106	\$ 8,139

## **Note 1 - Nature of Activities and Summary of Significant Accounting Policies**

Simpson Housing Services Inc. (the Organization) was incorporated on July 26, 1993, pursuant to the Minnesota Nonprofit Corporation Act. The Organization is dedicated to providing shelter and affordable housing with support services to homeless or imminently homeless families, men, women and children, to assist them in their efforts to improve their life situation and to advocate for their human and civil rights. The mission is to house, support and advocate for people experiencing homelessness. The Organization's program activities are:

### Shelters

- The Emergency Shelter provides overnight shelter accommodations for up to 44 single men and 22 single women. The shelter also provides hot meals, shower and laundry facilities, toiletries, as well as individual advocacy and mental and physical health services. Guests are offered a 28-day stay. Five beds for women are given on a first-come, first-serve basis nightly. The shelter has a Savings Program in which guests are encouraged to save money to apply toward more stable housing when they leave the shelter.

### Family Housing

- Rapid Rehousing Program – To provide up to two years of rental subsidy and case management services for 16 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- Transitions – To provide up to two years of rental subsidy and case management services for 15 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- THP (Transitional Housing Program) – To provide up to two years rental subsidy and case management services for 13 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- Passage Community Housing, LLC – Simpson Housing Services Inc. owned, 17-unit apartment building, providing transitional housing and case management to resident families. Program emphasis is on locating permanent housing, continued education and employment.
- Young Parent Program – To provide a short-term rental subsidy and case management services for 24 homeless families. Parents must be between the ages of 18 and 24. Program emphasis is on locating permanent housing, continued education and employment.
- Cedar View – A supportive housing project for young parent homeless families. Case-management services are provided for ten families at an affordable housing project owned by Beacon Interfaith Housing Collaborative in South Minneapolis.
- RAP (Rental Assistance Program) – To provide long-term rental assistance and limited support services for 27 homeless families. The program is designed to provide housing stability.

- Child and Youth Services – To provide an educational support program designed to affect positive change in family dynamics and child educational success by providing parenting support, tutoring, mentoring and direct children's services.
- ZOOM House – A permanent supportive housing project for chronically homeless families with a disabled family member. Case-management services are provided for ten families at an affordable housing project owned by Zion Lutheran Church in South Minneapolis.
- FRA (Family Roots Alliance) – A permanent supportive housing collaboration between Lutheran Social Service and Simpson. Forty long-term homeless families live in scattered-site housing in the West Metro and are provided rental assistance and case-management services.
- Third Avenue Townhomes – A permanent supportive housing project for homeless families with a disabled family member. Case-management services are provided for five families at a Section 8 affordable housing project owned by Beacon Interfaith Housing Collaborative in South Minneapolis.
- Housing First – A permanent supportive housing project for long-term homeless families with a disabled family member. Families live in site-based and scattered-site housing in Hennepin County and are provided rental assistance and case-management services. The program has a capacity of 42 families.
- Elliot Park Apartments – A permanent supportive housing project for long-term homeless families. Case-management services are provided for eight families at a Section 8 affordable housing project owned by Community Housing Development Corporation in the Elliot Park neighborhood near downtown Minneapolis.
- Riverside Plaza – A permanent supportive housing project for long-term homeless families. Case-management services are provided for 15 families at a Section 8 affordable housing project owned by Sherman Associates in the West Bank neighborhood of Minneapolis.

#### Single Adult Housing

- WHP (Women's Housing Partnership) and SARA (Single Adult Rental Assistance) – To provide 50 single adults with rental subsidy, services and support they need to obtain permanent housing after experiencing long-term homelessness. The primary focus of the program is to assist the most frequent guests at the Simpson Women's Shelter to locate and maintain permanent housing. The program includes intensive support services and weekly meetings with an advocate.
- COHR (Collaboration of Housing Resources) – A collaboration between Simpson Housing Services, RESOURCE Chemical and Mental Health and St. Stephen's Human Services. Through a variety of funding sources, over 300 adults, who have experienced long-term homelessness, are assisted in finding an apartment, a housing subsidy, and offered ongoing assistance to maintain housing. The teams seek to serve those who have experienced the longest time of homelessness and those who are more vulnerable or have more serious barriers to getting and maintaining housing.

- Opportunity Housing Partnership (OHP) – A collaboration between Simpson Housing Services, Aeon, and RESOURCE Chemical and Mental Health. The partnership provides resident support to residents at Aeon’s OHP properties. OHP is a set of Aeon buildings that provides 143 formerly homeless adults with a safe and permanent home and provides support services to help residents regain and maintain stability in their lives, homes and the community.

### **Principles of Consolidation**

The consolidated financial statements include the Organization’s wholly owned subsidiary, Passage Community Housing, LLC, because Simpson Housing Services, Inc. has both control of and economic interest in Passage Community Housing, LLC. All material intercompany transactions have been eliminated. Unless otherwise noted, the consolidated entities are hereinafter referred to as the Organization.

### **Cash and Cash Equivalents**

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Restricted cash – other is considered to be cash and cash equivalents.

### **Restricted Cash – Escrows and Reserves**

Passage Community Housing, LLC has specific agreements which require the establishment of tax and insurance escrows, replacement reserves, residual receipts and development cost escrows. Restricted cash related to these items is not considered to be cash and cash equivalents.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing promises to give and grants receivable. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. There was no allowance recorded at June 30, 2016 or 2015.

### **Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. All promises to give are current and due within one year. There was no allowance recorded at June 30, 2016 or 2015.

## Property and Equipment

Property and equipment additions over \$1,500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2016.

## Compensated Absences

Under the Organization's policies and procedures, employees are granted vacation leave based on the number of years of experience they have at the Organization. Employees may accumulate a maximum of 80 hours of their earned paid time off (PTO) leave benefit. Unused accumulated PTO, up to 80 hours, is paid to employees upon termination.

## Net Assets

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted – Net assets available for use in general operations.

Temporarily Restricted – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### **Contributed Property and Services**

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Property, services and other non-cash donations are recorded as in-kind contributions at their estimated market value at the date of donation.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. Total volunteer hours for 2016 and 2015 were approximately 34,800 and 35,600, respectively.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Income Taxes**

Simpson Housing Services Inc. (Simpson) is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). Passage Community Housing, LLC maintains exempt status under Simpson's exemption since Simpson is the sole member of Passage Community Housing, LLC. Simpson is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, Simpson is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. Simpson has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Simpson believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. Simpson would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

## Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

## Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable, promises to give, and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and nonprofit organizations supportive of the Organization's mission.

## Subsequent Events

The Organization has evaluated subsequent events through November 21, 2016, the date which the consolidated financial statements were available to be issued.

## Note 2 - Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

The Organization's investment assets are classified within Level 1 because they are comprised of certificates of deposit with readily determinable fair values based on daily redemption values.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2016 and 2015:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>				
Short-term investments				
Certificates of deposit	\$ 205,971	\$ 205,971	\$ -	\$ -
<u>June 30, 2015</u>				
Short-term investments				
Certificates of deposit	\$ 205,356	\$ 205,356	\$ -	\$ -

### Note 3 - Restricted Cash

Certain cash balances are restricted as of June 30, 2016 and 2015, for the following purposes:

	2016	2015
Transitional housing	\$ 128,145	\$ 128,107
Shelter guest savings	36,277	32,208
Security deposits (Passage)	19,889	16,571
Escrows and reserves (Passage)	157,088	160,319
	<u>\$ 341,399</u>	<u>\$ 337,205</u>

**Real Estate Tax and Insurance Escrow**

The Minnesota Housing Finance Agency (MHFA) mortgage agreement requires the establishment of a property tax and insurance escrow. These amounts are held by MHFA. Amounts consisted of \$71 and \$14,631, respectively, as of June 30, 2016, and \$59 and \$14,472, respectively, as of June 30, 2015, for property tax insurance escrow.

**Replacement Reserve**

The MHFA mortgage agreement requires a certain amount to be set aside for maintenance work on the property. These amounts are held by MHFA. As of June 30, 2016 and 2015, the replacement reserve balance totaled \$56,009 and \$60,216, respectively.

**Development Cost Escrow**

The MHFA mortgage agreement requires a certain amount to be set aside in the event the Organization cannot meet debt service requirements. These amounts are held by MHFA. As of June 30, 2016 and 2015, the development cost escrow balance totaled \$14,010 and \$13,998, respectively.

**Residual Receipts**

The MHFA mortgage agreement requires a certain amount to be set aside for excess cash payments made among other escrow and reserve accounts. These amounts are held by MHFA. As of June 30, 2016 and 2015, the replacement reserve balance totaled \$72,367 and \$71,574, respectively.

**Note 4 - Property and Equipment**

Property and equipment as of June 30, 2016 and 2015, consists of the following:

	2016	2015
Land	\$ 260,500	\$ 260,500
Building	1,369,500	1,369,500
Vehicles	48,967	48,967
Building improvements	1,073,449	1,073,449
Furniture and equipment	115,212	104,689
	2,867,628	2,857,105
Less accumulated depreciation	1,232,589	1,050,155
	\$ 1,635,039	\$ 1,806,950

**Note 5 - Notes and Mortgage Payable**

The Organization has various debt agreements for interest bearing and non-interest bearing loans. The following schedule of debt reflects the balance of outstanding loans at June 30, 2016 and 2015:

	2016	2015
5% mortgage note payable to Minnesota Housing Finance Agency (MHFA). Payable in monthly amounts of \$2,631, including interest, with the last payment due September 2021. Secured by assets of Passage Community Housing, LLC. Lien Priority 1	\$ 130,525	\$ 151,754
0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum in September 2021. Secured by assets of Passage Community Housing, LLC. Lien Priority 2	35,000	35,000
0% installment note payable to City Finance Agency is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum in September 2021. Secured by assets of Passage Community Housing, LLC. Lien Priority 3	425,730	425,730
1% installment note payable to City Finance Agency is due if units are not used for low income housing through July 2033. If the Organization is not in default of the loan through that date, the note is due in one lump sum, including interest, in July 2033. Secured by assets of Passage Community Housing, LLC. Lien Priority 4	300,000	300,000
0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum in September 2021. Secured by assets of Passage Community Housing, LLC. Lien Priority 5	148,500	148,500
0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets of Passage Community Housing, LLC. Lien Priority 6	120,500	120,500

	2016	2015
0% installment note payable to Wells Fargo Bank Minnesota, NA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets of Passage Community Housing, LLC. Lien Priority 7	\$ 34,000	\$ 34,000
	1,194,255	1,215,484
Less current portion	22,315	21,229
Long-term portion	\$ 1,171,940	\$ 1,194,255

Order of lien priority was agreed upon in the Management and Assumption Agreement between Minnesota Housing Finance Agency and Passage Community Housing, LLC.

Future principal payments required are as follows:

Years Ending June 30,	Amount
2017	\$ 22,315
2018	23,457
2019	24,657
2020	25,919
2021	27,245
Thereafter	1,070,662
	\$ 1,194,255

In-kind interest expense of \$120,850 for below-market loans has been recorded as an in-kind contribution and included in interest expense for the year ended June 30, 2016 and 2015.

**Note 6 - Leases**

The Organization leases office space and office equipment under non-cancelable operating leases.

Minimum future rental payments under the non-cancelable leases for each year during the remaining lease terms are as follows:

<u>Years Ending June 30,</u>	<u>Office Space</u>	<u>Office Equipment</u>	<u>Total</u>
2017	\$ 79,650	\$ 16,740	\$ 96,390
2018	68,270	16,740	85,010
2019	34,798	16,740	51,538
2020	-	13,676	13,676
2021	-	751	751
	<u>\$ 182,718</u>	<u>\$ 64,647</u>	<u>\$ 247,365</u>

Lease expense for the year ended June 30, 2016 and 2015, was \$85,576 and \$94,358, respectively.

**Note 7 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following as June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Child and Youth Services	\$ 30,961	\$ 115
Shelter	13,242	14,000
Heading Home Minnesota Partners Fund	-	7,357
Emerson Legacy Fund	120,406	123,187
Agency Administration	-	15,000
66 West	38,000	-
Time restricted for general operations	122,025	-
	<u>\$ 324,634</u>	<u>\$ 159,659</u>

Temporarily restricted net assets released from restrictions for the year ended June 30, 2016 and 2015, consist of the following:

	2016	2015
Child and Youth Services	\$ 115	\$ 12,515
Shelter	10,659	9,938
Heading Home Minnesota Partners Fund	7,357	5,203
Emerson Legacy Fund	2,781	1,813
Young Parent Program	-	27,132
Time restricted for general operations	15,000	-
	\$ 35,912	\$ 56,601

**Note 8 - Donated Materials and Interest**

The fair value of donated materials included as supporting services expenses for the years ended June 30, 2016 and 2015, totaled \$39,980 and \$46,723, respectively. The fair value of donated materials included as non-operating revenue and expense for the years ended June 30, 2016 and 2015, totaled \$277,970 and \$256,230, respectively. The fair value of donated materials (primarily meals) included as program service expense for the years ended June 30, 2016 and 2015, totaled \$184,060 and \$185,115.

The estimated value of donated interest expense on non-interest bearing or below market mortgages and notes payable has been included as program services expenses for the years ended June 30, 2016 and 2015. For the years ended June 30, 2016 and 2015, this totaled to \$120,850 for both years.

**Note 9 - Retirement Plan**

The Organization has a Simple IRA plan for all eligible employees. The annual employer's matching contribution is mandatory. The contributions made by the Organization totaled \$55,991 and \$55,468 for the years ended June 30, 2016 and 2015, respectively.

**Note 10 - Related Party Contributions**

During 2016 and 2015, Board members contributed \$42,918 and \$36,797 to the Organization, respectively.



Supplementary Information  
June 30, 2016 and 2015

**Simpson Housing Services Inc.**



## Independent Auditor's Report on Supplementary Information

The Board of Directors  
Simpson Housing Services Inc.  
Minneapolis, Minnesota

We have audited the consolidated financial statements of Simpson Housing Services Inc. and Subsidiary as of and for the years ended June 30, 2016 and 2015, and our report thereon dated November 21, 2016, expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Eide Bailly LLP*

Minneapolis, Minnesota  
November 21, 2016

Simpson Housing Services Inc.  
Consolidating Statement of Financial Position  
June 30, 2016

	<u>Simpson Housing Services, Inc.</u>	<u>Passage Community Housing, LLC</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 779,178	\$ 7,208	\$ -	\$ 786,386
Restricted cash - other	164,422	19,889	-	184,311
Restricted cash - escrow and reserves	-	157,088	-	157,088
Temporary investments	205,971	-	-	205,971
Accounts receivable	-	1,487	-	1,487
Promises to give, net	115,000	-	-	115,000
Grants receivable	183,794	-	-	183,794
Prepaid expenses	10,442	-	-	10,442
	<u>1,458,807</u>	<u>185,672</u>	<u>-</u>	<u>1,644,479</u>
Property and Equipment, Net	<u>546,947</u>	<u>1,088,092</u>	<u>-</u>	<u>1,635,039</u>
Total assets	<u>\$ 2,005,754</u>	<u>\$ 1,273,764</u>	<u>\$ -</u>	<u>\$ 3,279,518</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current portion of debt	\$ -	\$ 22,315	\$ -	\$ 22,315
Accounts payable	-	850	-	850
Accrued expenses	203,764	58,893	-	262,657
Deferred revenue	7,439	-	-	7,439
	<u>211,203</u>	<u>82,058</u>	<u>-</u>	<u>293,261</u>
Long-Term Liabilities				
Debt, net of current portion	<u>-</u>	<u>1,171,940</u>	<u>-</u>	<u>1,171,940</u>
Total liabilities	<u>211,203</u>	<u>1,253,998</u>	<u>-</u>	<u>1,465,201</u>
<b>Net Assets</b>				
Unrestricted	1,469,917	19,766	-	1,489,683
Temporarily restricted	324,634	-	-	324,634
	<u>1,794,551</u>	<u>19,766</u>	<u>-</u>	<u>1,814,317</u>
Total liabilities and net assets	<u>\$ 2,005,754</u>	<u>\$ 1,273,764</u>	<u>\$ -</u>	<u>\$ 3,279,518</u>

Simpson Housing Services Inc.  
Consolidating Statement of Financial Position  
June 30, 2015

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Eliminations	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 671,054	\$ 3,110	\$ -	\$ 674,164
Restricted cash - other	160,315	16,571	-	176,886
Restricted cash - escrow and reserves	-	160,319	-	160,319
Temporary investments	205,356	-	-	205,356
Accounts receivable	-	1,320	-	1,320
Promises to give, net	20,500	-	-	20,500
Grants receivable	105,184	-	-	105,184
Prepaid expenses	6,276	-	-	6,276
Total current assets	1,168,685	181,320	-	1,350,005
Property and Equipment, Net	631,628	1,175,322	-	1,806,950
Total assets	<u>\$ 1,800,313</u>	<u>\$ 1,356,642</u>	<u>\$ -</u>	<u>\$ 3,156,955</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current portion of debt	\$ -	\$ 21,229	\$ -	\$ 21,229
Accounts payable	5,622	2,823	-	8,445
Accrued expenses	185,643	53,062	-	238,705
Total current liabilities	191,265	77,114	-	268,379
<b>Long-Term Liabilities</b>				
Debt, net of current portion	-	1,194,255	-	1,194,255
Total liabilities	191,265	1,271,369	-	1,462,634
<b>Net Assets</b>				
Unrestricted	1,449,389	85,273	-	1,534,662
Temporarily restricted	159,659	-	-	159,659
Total net assets	1,609,048	85,273	-	1,694,321
Total liabilities and net assets	<u>\$ 1,800,313</u>	<u>\$ 1,356,642</u>	<u>\$ -</u>	<u>\$ 3,156,955</u>

Simpson Housing Services Inc.  
Consolidating Statement of Activities  
Year Ended June 30, 2016

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Eliminations	Total
<b>Support and Revenue</b>				
Contributions	\$ 1,340,135	\$ -	\$ -	\$ 1,340,135
In-kind contributions	184,060	120,850	-	304,910
Government contracts	3,736,853	-	-	3,736,853
Contract income	429,489	-	(35,820)	393,669
United Way	235,001	-	-	235,001
Rental income	86,142	216,797	-	302,939
Gross special event revenue	142,357	-	-	142,357
Less cost of direct benefit to donors	(60,306)	-	-	(60,306)
Net special events revenue	82,051	-	-	82,051
Other income	58,629	2,755	(6,800)	54,584
Total support and revenue	<u>6,152,360</u>	<u>340,402</u>	<u>(42,620)</u>	<u>6,450,142</u>
<b>Expenses</b>				
Program services				
Shelters	959,316	-	-	959,316
Family housing	2,625,523	405,909	(42,620)	2,988,812
Single adult housing	1,704,743	-	-	1,704,743
Total program services	<u>5,289,582</u>	<u>405,909</u>	<u>(42,620)</u>	<u>5,652,871</u>
Support services				
Management and general	374,595	-	-	374,595
Fundraising	302,680	-	-	302,680
Total support services	<u>677,275</u>	<u>-</u>	<u>-</u>	<u>677,275</u>
Total expenses	<u>5,966,857</u>	<u>405,909</u>	<u>(42,620)</u>	<u>6,330,146</u>
Change in Operating Net Assets	<u>185,503</u>	<u>(65,507)</u>	<u>-</u>	<u>119,996</u>
<b>Non-Operating Activity</b>				
In-kind contributions	277,970	-	-	277,970
In-kind expense	(277,970)	-	-	(277,970)
Total non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	185,503	(65,507)	-	119,996
Net Assets, Beginning of Year	<u>1,609,048</u>	<u>85,273</u>	<u>-</u>	<u>1,694,321</u>
Net Assets, End of Year	<u>\$ 1,794,551</u>	<u>\$ 19,766</u>	<u>\$ -</u>	<u>\$ 1,814,317</u>

Simpson Housing Services Inc.  
Consolidating Statement of Activities  
Year Ended June 30, 2015

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Eliminations	Total
<b>Support and Revenue</b>				
Contributions	\$ 1,142,044	\$ -	\$ -	\$ 1,142,044
In-kind contributions	182,115	141,850	-	323,965
Government contracts	3,534,781	-	-	3,534,781
Contract income	541,834	-	(35,580)	506,254
United Way	212,001	-	-	212,001
Rental income	68,944	210,809	-	279,753
Special event revenue	162,172	-	-	162,172
Less cost of direct benefit to donors	(64,144)	-	-	(64,144)
Net special events revenue	98,028	-	-	98,028
Other income	20,176	2,377	-	22,553
Total support and revenue	<u>5,799,923</u>	<u>355,036</u>	<u>(35,580)</u>	<u>6,119,379</u>
<b>Expenses</b>				
Program services				
Shelters	1,011,545	-	-	1,011,545
Family housing	2,476,625	397,650	(42,380)	2,831,895
Single adult housing	1,784,142	-	-	1,784,142
Total program services	<u>5,272,312</u>	<u>397,650</u>	<u>(42,380)</u>	<u>5,627,582</u>
Support services				
Management and general	339,380	-	6,800	346,180
Fundraising	271,654	-	-	271,654
Total support services	<u>611,034</u>	<u>-</u>	<u>6,800</u>	<u>617,834</u>
Total expenses	<u>5,883,346</u>	<u>397,650</u>	<u>(35,580)</u>	<u>6,245,416</u>
Change in Operating Net Assets	<u>(83,423)</u>	<u>(42,614)</u>	<u>-</u>	<u>(126,037)</u>
<b>Non-Operating Activity</b>				
In-kind contributions	256,230	-	-	256,230
In-kind expense	(256,230)	-	-	(256,230)
Total non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(83,423)	(42,614)	-	(126,037)
Net Assets, Beginning of Year	<u>1,692,471</u>	<u>127,887</u>	<u>-</u>	<u>1,820,358</u>
Net Assets, End of Year	<u>\$ 1,609,048</u>	<u>\$ 85,273</u>	<u>\$ -</u>	<u>\$ 1,694,321</u>